



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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June 7, 2000

The Honorable Kenneth Ray Womack, Chairman
Winn Parish Fire Protection District No. 3
P.O. Box 73
Sikes, Louisiana 71473

Dear Mr. Womack:

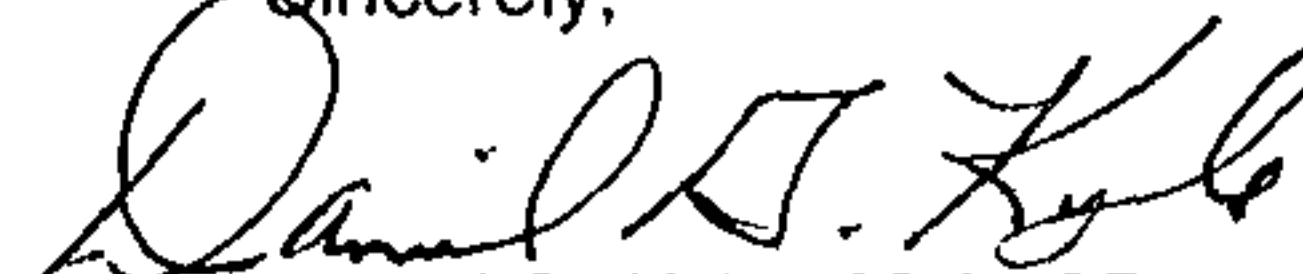
An auditor with my office traveled to the City of Winnfield on April 27, 2000, to review the financial records of the Winn Parish Fire Protection District No. 3. The auditor found the financial records to be incomplete and in shambles. Since November 1998, the district, which was created by the Winn Parish Police Jury on December 15, 1997, has spent or is in the process of spending revenues from a 6.50 mill and a 10.00 mill property tax (approximately \$500,000 each year), as well as \$2,250,000 of bond proceeds. A list of the missing records was prepared by the auditor and given to you and the secretary/treasurer of the district on April 27. The auditor informed you that he would return the following week to review the financial records.

The auditor returned to the City of Winnfield on May 4, 2000, and found that the records were still in shambles and incomplete. Your lack of oversight in ensuring that the financial records of the district are organized properly and complete demonstrates an inability to manage the affairs of the district. This has also been demonstrated by your lack of response to our letters and telephone calls relating to your statutory responsibility to provide for a biennial audit of the district as of and for the two years ended December 31, 1999. We wrote to you five times between November 3, 1999, and April 14, 2000, and we left several telephone messages for you relating to this matter.

Attachment 1 describes the laws that the district has violated; those laws with which my office could not determine the district's compliance because of the inadequate financial records; and the things the board should do to effectively manage the district. Management's responses to these findings are included as Attachment 2. We will continue to monitor the findings until the district resolves them.

Copies of this letter and all attachments have been delivered to the board members of the Winn Parish Fire Protection District No. 3 and other authorities as required by state law.

Sincerely,


Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK:GLM:lnl

WINN PARISH FIRE PROTECTION DISTRICT NO. 3
Winnfield, Louisiana

FINDINGS AND RECOMMENDATIONS

Proper Financial Records Not Maintained

The district has not maintained proper financial records. Financial records are necessary to (1) provide evidence that district officials have fulfilled their stewardship responsibilities; (2) properly reflect and account for the receipt and disbursement of funds; (3) demonstrate the district's compliance with applicable laws and regulations; (4) properly manage and safeguard district assets; and (5) provide for the preparation of accurate and timely financial statements. Louisiana Revised Statute (R.S.) 44:36 requires the district to exercise diligence and care in preserving public records. R.S. 24:515 provides that the district designate or provide an office for its secretary, treasurer, or principal finance officer where the district's books and records must be kept.

The district's financial records on May 4, 2000, consisted of check stubs and bank statements for two bank accounts, Louisiana Asset Management Pool statements, a mix of assorted invoices, various bid proposals, and two worksheets recapping cash receipts and disbursements through June 30, 1999.

In addition to the previously mentioned financial records, the district's financial records should, at a minimum, include the following:

- Monthly cash receipts and cash disbursements journal
- General ledger that summarizes the cash receipts and disbursements transactions on a monthly basis
- Monthly financial statements that report the operations of the district compared to the budgeted amounts
- Monthly bank reconciliations
- Minutes of the board meetings, including copies of the notice of the meetings and evidence that it was properly posted or published in the official journal, and the newspaper clipping where the minutes were published in the official journal
- Adopted budget, including evidence that it was made available for public inspection
- Documentation regarding all bids
 - Bid notification letters that include the contract, plans, and specifications
 - Documentation that the bids were properly advertised
 - Bid opening documentation that include the submitted bids, bid tabulation sheet, and indication of which bid was accepted
- Detailed list of all capital assets of the district (the list should include the date acquired, amount, and location of the asset)
- Bond indenture agreements (description of terms and conditions that the district must comply with)
- Payroll records
- Contracts

WINN PARISH FIRE PROTECTION DISTRICT NO. 3

Winnfield, Louisiana

Findings and Recommendations (Continued)

In accordance with R.S. 24:515, the district should designate or provide an office where the district's books and records will be kept.

**Current Written Minutes Should Be
Maintained and Published**

The district did not provide documentation that written minutes of the meetings of the board were maintained nor provide documentation that proceedings of all board meetings were published as required by Louisiana law. R.S. 42:7.1 requires the district to keep written minutes of all open meetings and these minutes should be available within a reasonable time after the meeting. R.S. 43:171 requires that the proceedings of the board meetings be published in the official journal of the district. In addition, there was no documentation that the district provided written public notice of the board meetings as required by R.S. 42:7.

We were informed by the secretary/treasurer of the district that she had most of the minutes at her house on a computer disk. Our review of paid invoices from the Winn Parish Enterprise revealed that minutes were published for seven meetings during 1999.

The district should (1) maintain timely written minutes of board meetings at the designated office where the district's books and records are kept; (2) publish the proceedings of the board meetings in a timely manner in the district's official journal; and (3) maintain copies of the notices of the meetings and evidence that they were properly posted or published in the official journal, and keep the newspaper clippings of the minutes.

Public Bid Law Violation

There was a lack of documentation available to show that the district complied with the provisions of the public bid law (R.S. 38:2211-61). The public bid law requires all purchases for materials or supplies exceeding \$15,000, and for public works (including labor and materials) exceeding \$100,000, to be advertised and let by contract to the lowest responsible bidder. For purchases of material and supplies between \$7,500 and \$15,000, at least three telephone or facsimile quotations are required to be obtained. The public bid law has specific requirements that must be followed by the district. The more notable of these requirements relate to advertising the bid solicitation (including the content of the solicitation), opening of the bids, and acceptance/rejection of the bids.

The district's financial records included various bid proposals. However, the financial records lacked (1) bid notification letters that included the plans and specifications; (2) documentation that the bids were properly advertised; (3) bid opening documentation; and (4) acceptance/rejection documentation.

WINN PARISH FIRE PROTECTION DISTRICT NO. 3

Winnfield, Louisiana

Findings and Recommendations (Continued)

The district should immediately put together the above documentation for all purchases that were let for bid since inception. In the future, the district should strictly comply with the requirements of the Louisiana public bid law and document that compliance.

**Failure to Comply With Local
Government Budget Act**

There was no documentation available to show that the district complied with the provisions of the Louisiana Local Government Budget Act (R.S. 39:1301-15). The Louisiana Local Government Budget Act requires that the district prepare a comprehensive budget for the general fund and each special revenue fund and make it available as a public document at least 15 days before the beginning of the fiscal year. The proposed budget cannot be considered for adoption until at least one public hearing has been conducted. All action necessary to adopt and finalize the budget must be completed in an open meeting before the start of the fiscal year. The act also requires that the budget be monitored during the fiscal year and amended when certain conditions occur.

The district could not provide documentation that budgets were prepared or adopted for fiscal years 1998, 1999, and 2000. In addition to violating Louisiana law, this reduces the effectiveness of the district's budgetary controls over revenues and expenditures and restricts public participation in the budgetary process.

If a budget for fiscal year 2000 has not been adopted, this should be done immediately, following the provisions of Louisiana law. Also, management of the district should use the budget in managing the district's fiscal operations.

Need for Monthly Financial Statements

Monthly financial statements are not prepared. Without monthly financial statements, the board cannot effectively exercise its responsibilities of managing the district's fiscal operations and monitoring the district's budget.

Financial statements that report the operations of the district compared to the budgeted amounts should be prepared monthly and presented at the regularly scheduled monthly board meeting.

Fixed Asset Records Needed

Detailed fixed asset records are not maintained, assets are not tagged, and physical inventories of fixed assets are not conducted annually. R.S. 24:515(B)(1) requires the district to maintain records of all land, buildings, improvements other than buildings, equipment,

WINN PARISH FIRE PROTECTION DISTRICT NO. 3

Winnfield, Louisiana

Findings and Recommendations (Continued)

and any other general fixed assets, which were purchased or otherwise acquired. The records should include information as to the date of purchase of such property or equipment and the initial cost.

The district should (1) define assets that will be inventoried, including the minimum value for inclusion on the list of fixed assets; (2) prepare a detailed list of fixed assets [the list should include the date of purchase and the initial cost]; (3) take a physical inventory at least annually and follow up on items not found during the physical inventory; and (4) identify [tag] assets that belong to the district and include the tag number on the listing of fixed assets.

**Employee vs. Independent Contractor
Needs to Be Determined**

The fire chief is paid as an independent contractor; however, it appears he may be an employee of the district. The employer is required to withhold income and social security taxes and to pay social security and unemployment taxes on wage payments for an employee. Independent contractors, on the other hand, are considered self-employed persons and are responsible for making their own tax payments.

We suggest that the district review this issue to determine if an employee-employer relationship exists. If the fire chief is found to be an independent contractor, the district should have a written agreement with the fire chief that provides the terms and conditions, fee or rate of pay, and what the district expects.

It is important that the district makes the correct determination, because if the Internal Revenue Service reclassifies the fire chief from an independent contractor to an employee, the district may be required to pay certain amounts of the employment tax liability that was not withheld because of the misclassification. Under the Internal Revenue Code, an employer may have to pay amounts equal to (1) 1.5% of the employee's federal income tax liability; and (2) 20% of the amount that should have been withheld for the employee's FICA taxes. Failure to withhold taxes because of intentional disregard of the withholding requirement may result in more stringent penalties.

Failure to Comply With Louisiana Audit Law

The district failed to submit an audit engagement agreement for its December 31, 1999, biennial audit within sixty days of the close of its fiscal year and failed to file annual worn financial statements to the legislative auditor within ninety days of the close of its fiscal year as required by R.S. 24:514.

WINN PARISH FIRE PROTECTION DISTRICT NO. 3

Winnfield, Louisiana

Findings and Recommendations (Concluded)

The district is required by R.S. 24:513 to have, at a minimum, an audit for the two years ending December 31, 1999 (the audit is required to be completed by June 30, 2000). To comply with this law, the district was required to submit an audit engagement agreement to the legislative auditor for approval by February 29, 2000. Because the district failed to submit the engagement agreement timely, sworn annual financial statements were required to be submitted to the legislative auditor by March 31, 2000.

We wrote five letters to the chairman of the district and left several telephone messages for him between November 3, 1999, and April 14, 2000, relating to the statutory responsibility to provide for a biennial audit of the district. The chairman of the district did not respond to our letters and did not return our telephone calls. Upon being advised that the legislative auditor would audit the district and charge for actual audit and travel costs, the board signed an engagement agreement with a certified public accountant on April 25, 2000.

Because the district failed to demonstrate a willingness to comply with state law and because of the poor condition of the financial records, we will require the district to provide for an annual audit until we are satisfied that the district is being managed properly.

Attachment 2

Management's Response

WINN PARISH FIRE PROTECTION DISTRICT NO. 3
P. O. BOX 73
WINNFIELD, LOUISIANA 71483

RECEIVED
JUN 3 10 00 AM '00
JUN -6 PM 9:36

June 2, 2000

Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Sir:

The Winn Parish Fire Protection District No. 3 has received your preliminary draft regarding your review of our financial records and we acknowledge that our records were not in a state of organization or properly assembled for you to perform the various tasks you desired. We also acknowledge that the financial records should be maintained in a proper state of organization, filed in a central location, and available for inspection. We also acknowledge that the responsibility for maintaining financial records is a function of the Board and we assure you that we will comply with the various statutory guidelines in future periods and properly respond to all your comments in your report.

We are responding to your report by the following actions:

1. We have engaged White & Bates, CPA's to perform an audit of our financial statements through December 31, 1999 in accordance with Statutory requirements. In connection with that examination, we have requested that they consider your report in their examination and assist us in correcting those areas in which we are not in compliance. The examination and corrective actions will be filed by the June 30, 2000 reporting date.
2. All financial records will be and are being reorganized and centralized to comply with statutory guidelines.
3. The report comments regarding Minutes, Public Bid Laws, Budgets, Monthly Financial Reports, Fixed Asset Records, and Independent Contractor Issues are being addressed and corrective actions taken in connection with the above examination.
4. We will in future periods engage on a timely basis a CPA firm to perform annual examinations, as required by your report and Statutory guidelines.

We believe that the above actions are a proper response to the numerous matters reflected in your report and we want to assure you that we will correct the matters noted, and are organizing the records to respond to your comments.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth Ray Womack". The signature is written in dark ink and is positioned above the printed name.

Kenneth Ray Womack, Chairman and
For the Board